

ORIGINAL



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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson  
Director  
Utilities Division

DATE: February 3, 2009

RE: SUN LEISURE ESTATES UTILITIES COMPANY, INC. - APPLICATION  
FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY TO PROVIDE  
WATER SERVICE IN PIMA COUNTY, ARIZONA (DOCKET NO. W-  
02386A-08-0189)

Attached is the Staff Report for the above-referenced application. Staff is recommending approval of the application with conditions.

EGJ:VW:red

Originator: Vicki Wallace

Arizona Corporation Commission

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Docket No. W-02386A-08-0189

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ARIZONA CORPORATION COMMISSION

SUN LEISURE ESTATES UTILITIES COMPANY

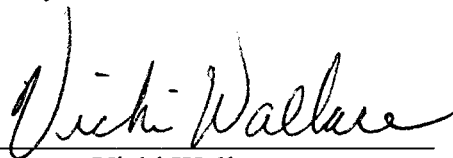
DOCKET NO. W-02386A-08-0189

APPLICATION FOR A CERTIFICATE OF CONVENIENCE & NECESSITY  
TO PROVIDE WATER SERVICE IN YUMA COUNTY, ARIZONA

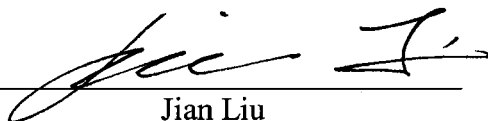
FEBRUARY 3, 2009

## STAFF ACKNOWLEDGEMENT

The Staff Report for Sun Leisure Estates Utilities Company, Inc. (Docket No. W-02386A-08-0189) was the responsibility of the Staff members listed below. Vicki Wallace was responsible for the review and analyses of the Company's application. Jian Liu was responsible for the engineering and technical analysis.

A handwritten signature in cursive script, reading "Vicki Wallace", written over a horizontal line.

Vicki Wallace  
Chief of Consumer Services

A handwritten signature in cursive script, reading "Jian Liu", written over a horizontal line.

Jian Liu  
Utilities Engineer

**EXECUTIVE SUMMARY**  
**SUN LEISURE ESTATES UTILITIES COMPANY, INC.**  
**DOCKET NO. W-02386A-08-0189**

On April 8, 2008, Sun Leisure Estates Utilities Company ("Sun Leisure" or "Company"), a non-profit cooperative Arizona public service corporation, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for a Certificate of Convenience and Necessity ("CC&N") to provide water service in Yuma County, Arizona, due to the revocation of its original CC&N granted via Decision No.52398 issued August 21, 1981. Sun Leisure's CC&N was revoked and corporate status dissolved, because the Company failed to file the required annual reports with the ACC Utilities Division and Corporations Division.

Sun Leisure is an Arizona non-profit corporation that is owned and operated by the members of the Sun Leisure Estates Homeowner's Association, also an Arizona non-profit corporation, which is comprised of the lot owners in the Sun Leisure Estates Subdivision. The Company provides service to approximately 57 metered customers in the 55-and-over retirement community.

The Company's corporate status was reinstated by the ACC Corporations Division on July 10, 2008. The Company also submitted the delinquent Utilities Division Annual Reports and its explanation of why the Company was non-compliant which basically was due to the death of the Company's CPA and lack of knowledge of the ACC's requirements. The Company has now retained a property management firm to assist them in meeting all requirements and is currently in compliance with the ACC.

Staff concludes that the Company did not intentionally fall out of compliance with the ACC's rules and reporting requirements, and the property management company currently retained now understands what is required by the ACC. Thus, Staff does not propose any additional fines (over and above the \$200 and \$250 fines previously imposed by the ACC in Decision Nos. 65649 and 69179) be levied on the Company or its owners. Staff recommends, however, that the Commission order the Company to require any new entity that may be retained to replace the current property management company/statutory agent to become familiar with all ACC rules and regulations and to make certain the appropriate paperwork is filed with the Corporations Division and Utilities Division to change management and contact information.

Staff concludes that the Company has adequate capacity to serve its existing customers.

Staff concludes that the Company is currently in full compliance with Arizona Department of Environmental Quality ("ADEQ") requirements and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.

Staff concludes that the company is currently in compliance with Arizona Department of Water Resources ("ADWR") departmental requirements governing water providers and/or community water systems.

Staff recommends that the Commission reinstate Sun Leisure's Certificate of Convenience and Necessity to provide water service to the Sun Leisure Estates Subdivision, subject to compliance with the following conditions:

1. To require Sun Leisure to charge its existing rates and charges in the proposed extension area.
2. To require Sun Leisure to utilize the depreciation rates by individual National Association of Regulatory Utility Commission category as delineated in Table A of Staff's Engineering Report (Exhibit 2).
3. To order the Company to require any new entity that may be retained to replace the current property management company/statutory agent to become familiar with all ACC rules and regulations and to make certain the appropriate paperwork is filed with the Corporations Division and Utilities Division to change management and contact information.

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## **INTRODUCTION**

On April 8, 2008, Sun Leisure Estates Utilities Company ("Sun Leisure" or "Company"), a non-profit cooperative Arizona public service corporation, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval for a Certificate of Convenience and Necessity ("CC&N") to provide water service to approximately 57 customers in Yuma County, Arizona.

On May 9, 2008, the ACC Utilities Division ("Staff") filed an Insufficiency Letter indicating that the Company's application did not meet the sufficiency requirements of the Arizona Administrative Code ("A.A.C.") R14-2-402. A Corrected Insufficiency Letter was subsequently filed on May 12, 2008. On June 11, 2008, the Company filed its response to the first insufficiency letter. On August 8, 2008, Staff filed a Second Insufficiency Letter listing additional deficiencies to be cured for administrative purposes. The Company subsequently supplied the required information, and on December 4, 2008, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of the A.A.C.

On December 11, 2008, a Procedural Order was issued setting the matter for hearing on February 24, 2009.

## **BACKGROUND**

In Decision No. 52398 issued August 21, 1981, Sun Leisure was granted a Certificate of Convenience and Necessity ("CC&N") to provide water service in an unincorporated portion of Yuma County near the City of Yuma, Arizona. The Company provides services to approximately 57 metered customers in the 55-and-over retirement community, and its current rates were imposed in 1990 via ACC Decision No. 62622. Additionally, the Company was authorized an emergency surcharge in Decision No. 62633 issued June 9, 2000, to cover the costs of drilling a new well, installing a new pump, and making repairs to the present well at that time.

On March 5, 2008, Sun Leisure filed an application (Docket No. W-02386A-08-0129) with the ACC requesting an emergency surcharge of approximately \$450 per customer in order to drill a new well and install a new pump to back up and secure the water supply. During the processing of that case, Staff discovered that in 2003, Sun Leisure was administratively dissolved for failure to file Annual Reports with the ACC Corporations Division. Additionally, the Company's CC&N was initially revoked in Decision No. 65649 issued February 1, 2003, for failure to file the 2001 Utilities Division Annual Report and the Company was fined \$250. Additionally, the Company was fined \$200 in Decision No. 69179 for failure to file the 2003 annual report. At the time of the filing of this case, the Company was also delinquent in filing its 2002, 2003, and 2004 Utilities Division Annual Reports. Decision No. 70375 was issued June 13, 2008, in the emergency rate proceeding: (1) Denying the surcharge; (2) ordering the Company to file for a permanent rate increase within 120 days of June 13, 2008, using a year-end 2007 test year (later modified via Commission Decision No. 70692 to a year-end 2008 test



year); and (3) ordering the Company to file evidence of its active corporate status within 30 days of the effective date of the Decision.

On April 8, 2008, Sun Leisure filed an application for a Certificate of Convenience and Necessity to provide water services in Yuma County, Arizona, due to the revocation of its original CC&N. On July 10, 2008, the Company's corporate status was reinstated and the ACC Corporations Division issued a Certificate of Good Standing. In its Corrected Insufficiency Letter, Staff asked the Company to file the delinquent 2001, 2002, 2003, and 2004 Utilities Division Annual Reports and asked for an explanation as to why the Company had failed to comply with A.A.C. 14-2-411(D) (4). The Company subsequently submitted the delinquent Utilities Division Annual Reports and its explanation of why the Company was non-compliant which is discussed further in the Company Organization and Operation Section below. According to the ACC Utilities Division Compliance Section, the Company currently has no delinquent compliance items.

Exhibit 1 is the legal description and map of the Company's current service area.

## **COMPANY ORGANIZATION AND OPERATION**

Sun Leisure is an Arizona non-profit corporation that is owned by the members of the Sun Leisure Estates Homeowner's Association, Inc., also an Arizona non-profit corporation, which is comprised of the lot owners in the Sun Leisure Estates Subdivision. Charles Swysgood is currently the President of the Board for Sun Leisure and filed the instant CC&N application. The Company indicates the utility company is operated by Sun Leisure Estates homeowners for Sun Leisure Estates homeowners. A Board of Directors for Sun Leisure Estates Utility Company is elected each year from homeowners in Sun Leisure Estates Homeowners' Association. The terms are staggered, so in theory, there is never a completely new board. The Company further indicates that although the organization structure has not changed, the ownership changes every time someone sells their property to another individual. The technical operation of the Company is performed by an Arizona Department of Environmental Quality ("ADEQ") certified operator.

In response to Staff's inquiry about the past non-compliant status of the Company to ACC requirements, the Company explained that up until 2002, it had a CPA firm (specifically Roger Thompson who served as the Statutory Agent) handle its association fees and expenses as well as the utility company billings and expenses. Following the death of Mr. Thompson in 2002, the Company decided to work with a property management company (Crites and Associates) instead of a CPA to assist the Board of Directors for both entities in the day-to-day operations. Diana Crites of Crites and Associates asserted that the Company and the management firm were unaware of the filing delinquencies from the Corporations and Utilities Divisions as all of the correspondence and forms coming from the ACC about the matter were sent to the deceased Statutory Agent. Ms. Crites indicated that once the matter came to the attention of the Company and her management firm, she submitted the delinquent annual reports with the signatures of the current board members to the ACC since past board no longer lived in

the neighborhood. According to Ms. Crites, the forms were rejected by the ACC since they contained the signatures of the current board members rather than the past board members that were on file with the ACC. She indicated that there was a court proceeding that resulted in a ruling that the forms could be signed by the Board President, and the delinquent reports were again submitted along with all other subsequent forms. As indicated previously in this report, the Company is now in Good Standing with the Corporations Division and has cleared up all annual report delinquencies with the Utilities Division.

It is Staff's opinion that the Company did not intentionally fall out of compliance with the ACC's rules and reporting requirements, and the property management company currently retained now understands what is required by the ACC. Thus, Staff does not propose any fines be levied on the Company or its owners. Staff recommends, however, that the Commission order the Company to require any new entity that may be retained to replace the current property management company/statutory agent to become familiar with all ACC rules and regulations and to make certain the appropriate paperwork is filed with the Corporations Division and Utilities Division to change management and contact information.

#### **EXISTING WATER SYSTEM**

As described in the Engineering Report which is attached as Exhibit 2, the Company's system serves approximately 57 customers and consists of one well (producing 130 gallons per minute), one storage tank (15,000 gallons), two booster pumps and a distribution system.

Staff concludes that the Company has adequate capacity to serve existing customers.

#### **FINANCIAL CONDITION**

The Company indicates that with its current rates, Sun Leisure is able to pay all of its bills with about 22 percent of its income going into reserves for repairs, etc. As indicated earlier in this report, the Company was required in another case to file a permanent rate case using a 2008 test-year end. Additionally, the Company is current on property tax payments to the Yuma County Treasurer.

Staff recommends that the Company continue to utilize its existing rates and charges until further Order of the Commission.

#### **ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE**

##### *Compliance Status*

ADEQ regulates the Company's Water System under ADEQ Public Water System ("PWS") #14-075. Based on compliance information submitted by the Company, the system has no deficiencies, and ADEQ has determined that this system is currently delivering water that

meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4. (ADEQ report dated April 28, 2008).

## **ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE**

### *Compliance Status*

The Company is not located in an Active Management Area ("AMA") and is not subject to any AMA reporting and conservation requirements. ADWR reported that it has determined that Sun Leisure is currently in compliance with departmental requirements governing water providers and/or community water systems.

## **WATER DEPRECIATION RATES**

The Staff's typical and customary Water Depreciation Rates are presented in Table A of the Engineering Report (Exhibit 2), and it is recommended that the Company use those depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category as delineated in the attached Table A.

## **CURTAILMENT PLAN TARIFF AND CROSS CONNECTION TARIFF**

After discussions with Staff, the Company filed for approval of a curtailment plan tariff and cross connection tariff on January 27, 2009.

## **CITY OR COUNTY FRANCHISE/PERMIT**

The Company received a franchise from the Board of Supervisors of Yuma County, Arizona, when it was initially certified by the ACC to operate a water system as a non-profit corporation.

## **RECOMMENDATIONS**

Staff recommends that the Commission reinstate Sun Leisure's Certificate of Convenience and Necessity to provide water service to the Sun Leisure Estates Subdivision, subject to compliance with the following conditions:

1. To require Sun Leisure to charge its existing rates and charges in the proposed extension area.
2. To require Sun Leisure to utilize the depreciation rates by individual NARUC category as delineated in Table A of Staff's Engineering Report (Exhibit 2).
3. To order the Company to require any new entity that may be retained to replace the current property management company/statutory agent to become familiar

Sun Leisure Estates Utilities Company, Inc.

Docket No. W-02386A-08-0189

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with all ACC rules and regulations and to make certain the appropriate paperwork is filed with the Corporations Division and Utilities Division to change management and contact information.

**MEMORANDUM**

TO: Vicki Wallace  
Chief, Consumer Services & Special Projects  
Utilities Division

FROM: Barb Wells  
Information Technology Specialist  
Utilities Division

THRU: Del Smith  
Engineering Supervisor  
Utilities Division

DATE: September 2, 2008

RE: **SUN LEISURE ESTATES UTILITIES COMPANY, INC. (DOCKET NO. W-02386A-08-0189)**  
**AMENDED LEGAL DESCRIPTION**

The area requested by Sun Leisure for a CC#N for has been plotted using an amended legal description, which has not been docketed (it will be docketed with this memo). This legal description is attached and should be used in place of the original description submitted with the application.

Also attached is a copy of the map for your files.

:bsw

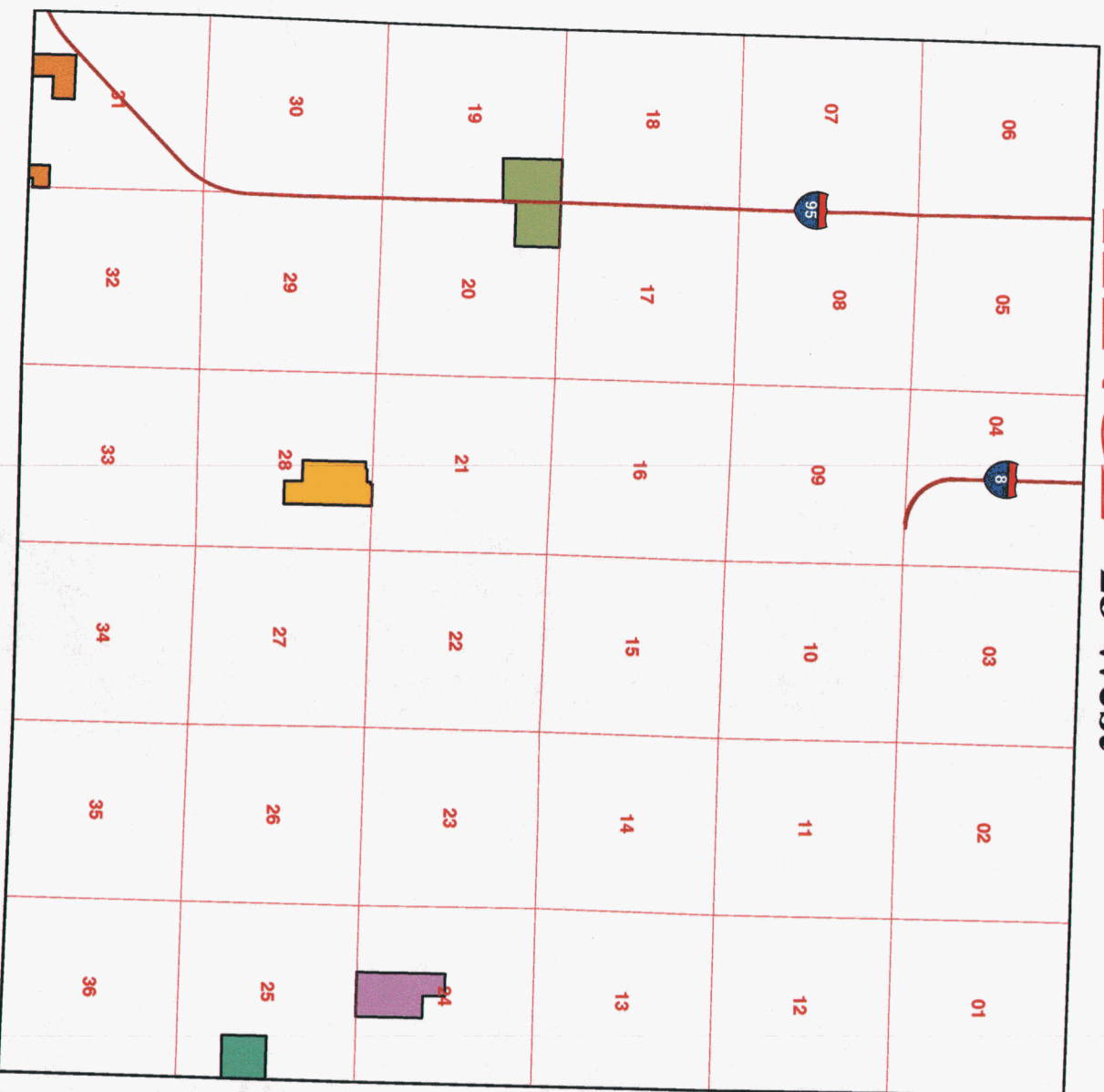
Attachments

cc: Mr. Jason Moyes  
Ms. Deb Person (Hand Carried)  
~~File~~ *jian*

# YUMA COUNTY

Map No. 9

## RANGE 23 West



## TOWNSHIP 9 South

- W-2271 (1)  
Green Acres Water Company
- W-2237 (2)  
Orange Grove Water Company
- W-3254 (2)  
Rancheros Bonitos Water Company, LLC
- W-2386 (1)  
Sun Leisure Estates Utilities Company, Inc.
- W-2498 (1)  
Tierra Mesa Estates Water Company, Inc.
- W-2386 (1)  
Sun Leisure Estates Utilities Company, Inc.  
Docket No. W-02386A-08-0189  
Application for CC&N

SUN LEISURE ESTATES UTILITIES COMPANY, INC.  
DOCKET NO. W-02386A-08-0189  
AMENDED LEGAL DESCRIPTION

Parcel No. 1

The West half of the Northeast Quarter (W1/2 NE1/4 of Section 28, Township 9 South, Range 23 West of the Gila and Salt River Base and Meridian, Yuma County, Arizona,

EXCEPT that portion of the West half of the West half of the Northeast Quarter of Section 28, described as follows:

BEGINNING at the Northwest corner of the West half of the West half of the Northeast Quarter, thence South 936 feet to a point, thence East 660.40 feet to a point, thence North 936 feet to a point, thence West 659.45 feet to the point of beginning.

AND FURTHER EXCEPTING a portion of the West half of the West half of the Northeast Quarter of Section 28, described as follows:

BEGINNING at the Southwest corner of the Northeast Quarter of said Section 28, thence North 535.85 feet, thence East 625.44 feet, thence South 533.54 feet, thence West 625.98 feet to the point of beginning.

Parcel No. 2

Lots 1 through 58, and Tract "A" Sun Leisure Estates, Unit No. 1, according to Book 8 of Plats, pages 64 and 65, Records of Yuma County, Arizona, further described as follows:

BEGINNING at the Northeast corner of the West half of the West half of the Northeast Quarter of Section 28, Township 9 South, Range 23 West;

THENCE South 00° 06' 49" East, a distance of 50.00 feet to the true Point of Beginning;

THENCE North 89° 47' 18" West, a distance of 62.90 feet;

THENCE South 00° 06' 49" East, a distance of 105.00 feet;

THENCE North 89° 47' 18" West, a distance of 368.72 feet;

THENCE South 41° 14' 45" West, a distance of 6.82 feet;

THENCE South 41° 14' 45" West, a distance of 46.21 feet;

THENCE North 89° 47' 18" West, a distance of 192.84 feet;

THENCE South 00° 03' 18" East, a distance of 741.00 feet;

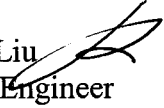
THENCE South 89° 47' 18" East, a distance of 660.40 feet;

THENCE North 00° 06' 49" West, a distance of 886.02 feet to the true Point of Beginning.

**MEMORANDUM**

DATE: January 26, 2009

TO: Vicki Wallace  
Chief, Consumer Services

FROM: Jian W. Liu   
Utilities Engineer

RE: Sun Leisure Estates Utilities Company, Inc.  
Docket No. W-02386A-08-0189 (CC&N – Water)

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**Introduction**

Sun Leisure Estates Utilities Company, Inc. ("Sun Leisure" or "Company") filed an application for a Certificate of Convenience and Necessity ("CC&N") on April 8, 2008. In Decision No. 52398 (August 21, 1981), the Commission granted Sun Leisure its CC&N to provide water service in an unincorporated portion of Yuma County near the City of Yuma. Sun Leisure's CC&N was rescinded pursuant to Decision No. 69179 (December 5, 2006) as a result of the Company's failure to file Annual Reports with the Arizona Corporation Commission ("ACC").

**Existing Water System**

The Company's system serves approximately 57 customers and consists of one well (producing 130 gallons per minute), one storage tank (capacity 15,000 gallons), two booster pumps and a distribution system.

Staff concludes that the Company has adequate capacity to serve existing customers.

**Arizona Department of Environmental Quality ("ADEQ") Compliance****Compliance Status**

ADEQ regulates the Sun Leisure's Water System under ADEQ Public Water System ("PWS") #14-075. Based on compliance information submitted by the Company ADEQ has determined that this system is in full compliance with its requirements and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4. (ADEQ report dated April 28, 2008).



## **Arizona Department of Water Resources ("ADWR") Compliance**

### **Compliance Status**

The Company is not located in an Active Management Area ("AMA") and is not subject to any AMA reporting and conservation requirements. ADWR reported that it has determined that Sun Leisure Estates Utilities Company is currently in compliance with departmental requirements governing water providers and/or community water systems.

### **ACC Compliance**

According to the Utilities Division Compliance Section, the Company has no delinquent compliance items.

### **Water Depreciation Rates**

The Staff's typical and customary Water Depreciation Rates are presented in Table A and it is recommended that the Company use these depreciation rates by individual NARUC category as delineated in the attached Table A.

### **Summary**

#### **Conclusions**

- A. Staff concludes that the Company has adequate capacity to serve existing customers.
- B. The Company is not located in an AMA and is not subject to any AMA reporting and conservation requirements. ADWR reported that it has determined that Sun Leisure Estates Utilities Company is currently in compliance with departmental requirements governing water providers and/or community water systems.
- C. ADEQ has determined that Sun Leisure's system is in full compliance with its requirements and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.

#### **Recommendations**

- 1. Staff recommends that the Company use the water depreciation rates by individual NARUC category as delineated in the attached Table A.

Table A. Water Depreciation Rates

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00